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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions.

THE marked feature of the past month has been the rise of wages, raw materials and food products, placing the industries of the country upon a still higher level of costs, and, of course, accompanied by higher prices for all goods. Perhaps it would be more accurate to place the incessant demand for finished goods first in order, as the cause of all the other phenomena, but the influences act and react upon each other. The essential fact is that the pressure for goods of all kinds is greater than ever before known, that all the means of production are crowded to the limit, and that there are not enough goods to go around. Under these conditions there is probably an extra demand, as there was for a time last spring, due to apprehensions that supplies will be short and prices still higher in the future. This was evidently the case for a time in the coal situation, which has since eased noticeably, although there is still anxiety about the supply, on account of the car shortage rather than a shortage of coal at the mines.

The newspapers are filled with resolutions of denunciation and demands for investigations, with little recognition of the fact that there is no remedy for a scarcity except by eliminating a portion of the demand; and, that short of an official regulation of consumption, such as has been adopted in Europe, there is no way of reducing consumption or of shifting it to substitutes, but by the influence of higher prices. They should serve an economic purpose by compelling more careful use, a study of substitutes, and by giving a stimulus to production in the future. Unfortunately it is true that this remedy is harder upon those who are forced to economize than upon those who are able to buy what they want at any price; but any regulation that materially reduces consumption must accomplish its chief effects through the great body of consumers. The task of putting all the people of the United States on rations is too formidable to be attempted, and there does not appear to be any better way of dealing with the situation than by allowing natural forces to work out their results. The boycotts which have been declared, whether justified or not as punitive measures, will be effective in so far as they reduce consumption.

Stimulating Production.

One of the results is that a much larger area has been sown to wheat this fall, and it is agreeable to hear that the plant is going into the winter in exceptionally promising condition. Manufacturers of equipment for canning factories report an exceptional demand for their machinery, due to the stimulus given to the canning industry by the present high prices. In many lines of industry the same situation exists, and the prices of goods for immediate consumption are increased by demands for construction work which will eventually enlarge the market supply. The cost of all steel materials are enhanced just now by the great amount of steel equipment wanted for the enlargement of steel works. These enlargements are being rushed along in hopes that they will be completed in time to get the benefit of the present market, and some of them are already coming into operation.

It would seem that the point must be near where all construction work not of imperative necessity will be held in check by the high capital costs. Upon general principles, it appears to be very doubtful policy to put capital into construction under present conditions. Certainly it is now in the interest of stability in industry that every dollar's worth of work than can be postponed shall be postponed. It is only a question of time until the point is reached where prices will bring demand under control, and increasing production will overtake and pass it. Unless history has stopped repeating itself, there will be a story then of idle plants and unemployed men. It is said that the late advance of $5 per ton in steel rails was adopted in the hope that it would hold purchases in check and allow the steel makers to handle the demand for products which bring very much better profits than rails earn at this price.

The situation is one that calls for patience and common sense. The business of the world has been disorganized and thrown out of customary channels by the war, and there is no power great

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enough to prevent the ill results. They will cure themselves by natural processes more surely than they can be remedied by any authority possessed by the government.

Industries Busy.

The industries are generally sold so far ahead that they have little concern about next year's prosperity. A great deal more foreign business might be had if early deliveries could be made. The ship yards are counting on three to five years of great activity. The railroads bought little new equipment in the years of low earnings, and held off as long as possible against paying high prices, but they are now crowding the equipment companies with orders. The textile mills, despite the very high prices of wool and cotton, are driven to capacity, and fully sold up. It is said to be very difficult to get ordinary print cloths for any satisfactory delivery. Raw cotton is above 20 cents per pound, and the wool situation is even more serious, as the Australian supply, except for a low grade, is entirely withdrawn from market. The United States has bought heavily in South America, and the crop of our own western states, which will not be taken from the sheep until four or five months from now, is already being contracted for at twenty per cent. above 1916 prices.

The high prices for copper, lead, zinc and silver are stimulating an increase in their production, and making very prosperous conditions in the mining districts.

The live stock markets are steady under large receipts. Cattle are being marketed in large numbers in a half-fat condition, showing that the high price of feed is a deterrent to proper finishing. This is keeping prices for the present below what they would normally be with high-priced corn, but it means that good beef will be higher later on, at the time when these cattle would be naturally ready for the market. The hog supply is large, with prices at about $10 per hundred weight in Chicago, and product moving rapidly to consumption. This year's hog crop has been very profitable to producers. The potato crop is short, with the result that farmers favored with a good yield have had something better than a munitions contract.

The Labor Situation.

The labor situation has been inevitably strained by the rise of living costs, and it is a serious matter that more than six months must yet be passed before the measure of the next crop can be known. The steel and textile industries, two of the greatest employers of labor in the country, have granted a ten per cent. increase in wages for the third time since January 1, 1916, and wage advances are general. Employers admit both the justice and necessity of this policy. They are prosperous, willing to pay more, and eager to work their plants to capacity. The situation is interesting from an economic standpoint as showing the inevitable reaction upon wages when capital is prosperous, but there is no little anxiety as to what the attitude of the wage-earners will be if conditions after the war will not allow the payment of such wages.

The controversy between the railway companies and the trainmen has been revived by the action of the companies in bringing suit to obtain a judicial interpretation of the Adamson act. In a case brought before Judge Hook, of the United States Circuit Court, at Kansas City, he gave what he admitted to be a hurried opinion, in order that the case might be expedited to the Supreme Court, holding that the law was unconstitutional. The case will be argued at once before the Supreme Court, and it is expected that a decision will be obtained before January 1st, when the law, by its terms, is to take effect. If it should be found invalid, the situation will be what it was before the law was hastily passed under the threat of an immediate strike, except that there has been an opportunity since then to take the opinion of the country upon it. There can be little doubt that the judgment of the country has been unfavorable. The members of Congress who voted for it have commonly justified themselves by the plea that at the time it was the only alternative to a suspension of railway service. It is not likely that so complete a surrender to the power of a few men will occur again. In the long run the interests of the public, rather than the interests of either railway owners or railway employes, are bound to determine the conditions upon which the railways shall be operated. The railway employes as a class will surely agree to the justice of this when they consider it fully.

It is quite possible that the companies and men may get together upon a settlement while the case is pending, and if not, it is probable that the President's recommendation for a law similar to the Canadian arbitration act, which forbids a strike upon railways until a government inquiry has been held, will be carried out. In asserting a right to tie up the commerce of the country by concerted action the trainmen have been led to take a position that cannot be sustained. The difference between an individual's right of action and the right of combination is the basis of all the anti-trust legislation.

Foreign Trade and Exchange.

Foreign trade continues at about the level of recent months, our exports being limited by our ability to supply the products of all kinds that the world would gladly buy. The net credit balance on merchandise exports and imports in October was $314,200,000. For the ten months of the calendar year the balance is $2,434,000,000, and for the twelve months ended with October $2,793,200,000. The net importations of gold from

January 1st to October 31st were $378,958,000, and for the twelve months from October 31, 1915, to the same date 1916, they were $469,-800,000.

Under the present state of trade, foreign loans or gold importations are continually in order, and while all recent loans have been readily taken, the volume of payments is so great that it is not easy to arrange credit fast enough to meet them, although the opinion is general that it would be better for this country to take settlement in this manner than with gold. Moreover, since the gold importations have gone largely to the interior, while the loans are placed mainly in the East, gold importations are necessary to provide base for the credits.

The gold reserves of Great Britain, France and Russia before the war, at the statement nearest October 31st, and at the date of the latest available return, are given below:

	July, 1914	Oct. 31, 1916	Nov. 23, 1916
Bank of England	$183,000,000	$272,000,000	$282,000,000
Exchequer note reserve	....	142,500,000	142,500,000
Bank of France	828,000,000	849,000,000	790,000,000
Bank of Russia	800,000,000	779,000,000	775,000,000
Total	$1,811,000,000	$2,042,500,000	$1,989,500,000

Besides the foregoing, the Bank of France reported on November 23rd gold holdings abroad of $215,000,000, and the Bank of Russia reported large balances abroad. These may, in part, consist of gold contributed to the allied pool, but in the case of Russia, if not both, they include credits created by loans. There is no question that the allies have a stock of gold that is not included in the bank statements, for the statements from week to week do not reflect the shipments to this country. There is also presumably some gold remaining in the joint stock banks of Great Britain. Altogether, the total gold holdings of the three allies are well above $2,000,000,000.

Since May, 1915, the people of France have turned into the Bank of France over 1,800,000,000 francs of gold coin, the equivalent of over $360,-000,000, in exchange for bank notes, as a voluntary contribution to the financial strength of the country.

The Gold Standard.

There is no reason at present for anticipating any change in the policy of the Bank of England in regard to gold payments, and the sensational speculation as to the possibility of the allied countries abandoning the gold standard are almost too preposterous to be discussed. Great Britain, at the end of this war, will be still the greatest creditor nation in the world. Her loans to her allies, from April 1st to October 7th of this year, as stated by Mr. Asquith in the House of Commons, on October 11th, aggregated £253,-000,000, or approximately $1,265,000,000, which undoubtedly exceeded her borrowings abroad and her sales of securities in the same period. In other words, even now she is increasing the credit balance in her relations with the rest of the world. All those relations, including the position of London as the world's clearing house, and her place in world trade, are pivoted upon the gold standard. Even if she should follow the example of Germany and France, and our own example during the Civil War, and suspend gold payments, it would not signify abandonment of the gold standard or any loss to her creditors. It would mean that she would have to do international business at somewhat greater inconvenience and cost, and at a temporary disadvantage in competition with New York, but it would be one of the unavoidable costs of the war.

Meanwhile we repeat that there are no signs that London is contemplating a suspension of gold payments, and we shall not believe that it is going to occur until it does occur. The new gold taken out of the ground annually in allied territory amounts to $300,000,000, and this need only be supplemented with $100,000,000 or $200,-000,000 from the allied reserves to cover annual shipments to this country equal to those of 1916. It is to be hoped that the United States will not be required to receive more than $500,000,000 in gold per year in addition to its own production.

A moderate overflow of gold is now taking place from this country to South America and Asia. Exchange conditions are making it profitable to send the metal to Buenos Aires in considerable amounts, and it is moving as fast as practicable, the amount of insurance upon single shipments being limited. So far, about $7,-500,000 has gone to this destination, with smaller amounts to other South American countries.

Japan, which is under a great stimulus from Russian war orders, has been gaining gold in small amounts from the United States, and in larger amounts from other sources, possibly Russia. It has been able also to hold its own production, which amounts to about $7,000,000 per year, including that of Korea. The Bank of Japan has made a net gain of a little over $40,-000,000 of gold since the war began, having lost considerable at first.

British and French Treasury Bills.

The British and French governments have both determined to try this market with their short-term Treasury bills, which have been a popular form of loans in London and Berlin. As offered in those cities they have had maturities running from ninety days to one year, but the bulk of them have run ninety days and six months, with rates varying to suit the market. An astonishing amount of the British bills have been absorbed in England, and they have

been bought freely in Holland and the Scandinavian countries, their popularity resulting from the fact that the short maturities keep the investor within reach of his capital and enable him to convert it readily into something else if he cares to do so. As they mature they are paid off and the lender either keeps his money or buys new bills.

The last long-term loan issued by the British government was that of June, 1915, payable in 1925 and due in 1945. This loan bears 4½ per cent., and the total issue under it was about $4,500,000,000, including the conversions of consols and 3½ per cent. bonds, which were allowed under it. It was supposed at that time that another permanent loan would be brought out after January 1st, 1916, or at the latest immediately after the close of the fiscal year, March 31st. However, the offerings of short obligations, principally Treasury bills, were so freely taken that no additional loan has been yet brought out. The total amount of Treasury bills outstanding is now above $5,000,000,000, and the rate of interest upon all maturities is 5½ per cent., or practically the same as the London discount rate on prime commercial bills. Next to these in popularity on the London market are the 6 per cent. Exchequer bonds, due in 1920.

The French Treasury has found the French market likewise favorable to short obligations and has placed them in large amounts. This experience in London and Paris has prompted the offerings which are contemplated in this country. The bills will be of varying maturities to suit purchasers, payable in this country in dollars and free from all taxation by the issuing governments. No collateral security will be given but it is believed that they will be taken in considerable amounts as a convenient, safe and remunerative method of investing funds temporarily idle, and which owners may wish to keep quickly available.

There is no doubt in the minds of well informed people that the British and French governments will meet all of these external obligations in full and with scrupulous punctuality. It is to be always remembered in considering the total indebtedness of these countries that the internal indebtedness, while indeed a burden, is also a source of revenue. It is taxable, like other forms of private property, while the external indebtedness is not. Whatever questions there may be about the ability of these governments to pay their debts will be settled eventually by means of the taxing power. The internal debts will not be repudiated, but the taxation may be very heavy. It can be just as heavy as need be to enable the Treasuries to pay out, but this does not apply to the external debt.

Statement of the Federal Reserve Board.

The Federal Reserve Board has issued a statement expressing the view that Treasury bills issued by countries engaged in the war are likely to prove, when collectively considered, an unliquid asset in the hands of American banks, and that such holdings, if large, may eventually interfere with the accommodations which the banks are under obligations to give to the home public. It therefore disapproves of them as a form of investment for banks.

The statement is of such importance that we give it in full elsewhere. With the opinion of the Board as to the importance of keeping the banks in liquid condition and of not loaning down to the legal limit, we are in entire accord, but there are certain phases of the subject upon which some further comments may be properly added. The statement says:

> The board does not share the view frequently expressed of late that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks, or, if need be, by legislative enactment. . . . It will then appear that while a large increase in the country's gold holdings has taken place the expansion of loans and deposits has been such that there will not remain any excess of reserves apart from the important reserve loaning power of the Federal Reserve Banks.

The nub of this discussion is in the last sentence of the extract, where recognition is given to the fact that although there has been a large increase in the country's gold holdings, there has also been a very great expansion of deposits and loans. This is what always happens when the supply of money is increased. Loans, and deposits created by loans, follow right up after it until the capacity for credit expansion is exhausted. According to figures given by the Comptroller of the Currency, the loans of all banks in the United States increased between June, 1914, and June, 1916, by approximately $2,500,000,000, which is far beyond any previous expansion in our history. There is every reason to believe that continued additions to our monetary stock will have similar effects.

There were never greater temptations to the use of money and credit than in this country today. The demand for products of every kind exceeds the supply, and profits are such that there are very great inducements to individuals to enlarge their operations, or to buy into properties and companies that are making large earnings. These are the conditions which in conjunction with easy money have always produced over-expansion and subsequent disaster.

The Board admits that this danger will exist

"in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansion and of inflation."

There is no practicable way of controlling the money supply of this country. That idea may well be allowed to remain the exclusive possession of the trust-busters. The importations of gold go into the banks, but they go in as deposits, and the lending or purchasing power remains first of all with the depositors. It is possible, and we believe desirable, to collect this gold into the Federal reserve banks, but if the reserve banks acquire it they must give either their notes or an equivalent credit on their books in exchange. A credit at a reserve bank is a basis for loans in a member bank, the same as gold in the latter's vault. Up to the limit of the lending power of the member banks the reserve banks have no control over the expansion of credit; it is only as the member banks desire to re-discount that any restraint can be placed upon them.

What degree of co-operation does the Board expect to obtain among 27,000 banks? Can it persuade them to stop competing with each other for business, or restrain their eagerness to accommodate desirable customers, and to stop paying interest on deposits? The command over bank deposits is not final in bank officers. It rests at last with bank patrons, and when bank patrons want to expand loans they are usually able to do it.

It is said that money will burn a hole in a boy's pocket, but it will likewise burn a hole in a man's bank account or a bank's vault. A boy is not more eager to spend money than the average man is to make money, or the average bank is to keep its funds employed.

The City Chamberlain of New York invited proposals from the banks for the city deposits for three months, beginning November 1st last. In announcing the result this official stated that the bids ranged from two to three per cent., and that there were more bids above two per cent. than ever before; this in a low money market. Competitive bidding for deposits compels the employment of the deposits.

For years before the Federal Reserve System was established, the banks of the Central reserve cities were regularly lectured upon the importance of keeping larger reserves, and individually they assented to the criticism, but competitive conditions controlled them, and the force of competitive conditions must be recognized at all times. If gold continues to come into the country we must expect that somebody will put it to use, at least so long as the conditions for profitable use are as favorable as now. And once it is engaged as the basis of credit it cannot be removed without tearing down the whole fabric of credit and business founded upon it.

It is true that the banks have an obligation to support the regular business of the country, by providing merchants, manufacturers and farmers with credit as they need it. But the amount of money and credit required to support the legitimate expansion of industry and trade is limited. When all the productive forces of a country are already in full action you cannot enlarge their powers by merely increasing the stock of money. Attempts to put more money into use at such a time will only create new demands for labor and materials when no more are to be had, with the result that wages and prices will rise until the new supplies of money are absorbed in doing the same amount of business as before. All of this carries the country constantly further from normal conditions, and involves a menace for the future.

The country is now at the very top notch of industrial activity, and there is no reason to believe that more gold will be required to finance legitimate expansion. More gold, however, is certain to come and the credit resources which will be thus created will probably be used somehow. How may they best be used for the good of the country, and with a view to the probability that after the war is over a large part of this gold must be returned to Europe?

It is generally recognized that the United States cannot expect to retain its present proportion of the world's gold after peace has been restored and industry has been resumed in Europe. All of the influences that in normal times work to distribute the supply to the various countries, according to their need for capital and for commercial credits, will be operative again. The members of the reserve board have individually emphasized the importance of preparing to relinquish a large amount of gold, in order that it may be done with the least possible disturbance to credits in this country.

It is not a question of whether our new supplies of money and credit shall be invested in liquid domestic loans or unliquid foreign loans; the choice is rather between unliquid domestic loans and liquid foreign ones.

It is always good for a bank to keep liquid. Why? In order that it may have available resources to meet any demands that may come upon it in the future. From what quarter are the most serious demands likely to come upon this country in the near future? We do not question the ability of the Federal reserve system to take care of any home demands? Its note-issuing powers gives ample protection against these. But even the reserve board is

not sanguine that the gold resources of the reserve banks are equal to the possible demands for gold for exportation. These Treasury bills, however, falling due at consecutive dates, will serve as offsets for equal amounts of gold. So long as any are held in this country they will give control over the gold situation.

The following extract from a recent public address by one of the members of the Federal Reserve Board is in point:

"We should not overlook the extraordinary ability of the country to protect itself against any violent loss of gold by using for this purpose some part of the extensive holdings of European securities which we have recently acquired. The great extension of the international loan market, which has been one accompaniment of the war, is certain to result in a greatly enlarged use of acceptable securities as a means of international payment and as a substitute for gold in making international settlements."

These short-term bills answer this purpose better than bonds running a term of years. The latter are only realizable before maturity by sale in a foreign market, subject to its conditions and fluctuations, while the former must be paid, or replaced in this market upon terms satisfactory to the American buyer. The borrowing governments will protect themselves against extreme fluctuations in the rate by a reserve of gold in Canada, to be used as needed.

With the abstract opinion that the banks of this country ought not to tie up an undue share of their resources in foreign Treasury bills, or any one class of paper, no issue of course can be taken. A national bank is prohibited by law from lending more than ten per cent. of its capital and surplus to any one borrower, and although the Comptroller has ruled that this does not apply to the obligations of governments, we regard the rule as a good one to follow upon general principles. Even that is more than a bank is likely to lend to a borrower who has no claims upon it for accommodations. The purpose of our comments is simply to present the views of those who hold that there is danger in continued accumulations of gold, and that short time obligations which will serve as offsets to foreign demands for gold may be in the not distant future an extremely desirable class of assets.

Money and Banking.

Money tightened perceptibly in New York during the last half of November, due to the loss of bank reserves. In part this is attributable to the payment of deposits into the Federal reserve banks on the 16th, but it is the season of the year when the country normally draws on New York. The loans, deposits, reserves and surplus reserves of the sixty members of the Clearing House on the 4th and 25th of last month and on November 27th, 1915, are given below:

	1916 Nov. 25	1916 Nov. 4	1915 Nov. 27
Loans	$3,415,522,000	$3,357,047,000	$3,133,235,000
Demand deposits	3,351,975,000	3,359,725,000	3,216,626,000
Cash reserve	398,087,000	474,675,000	521,335,000
Reserve in depositories	237,649,000	229,297,000	218,109,000
Surplus reserve	58,647,000	124,107,040	183,477,000

These figures show why call money has gone to six per cent. in the last week. They also show that although gold importations exceeding exportations by over $400,000,000 have been received at New York in the last year the cash reserves of the clearing house banks have actually been reduced in the sum of $123,248,000. The cash holdings of the Federal reserve bank of New York have increased in the same time by only $7,176,000, showing that all the gold which has been imported, and much more besides, has gone to the country.

From June 1st to November 27th the clearing house banks had a net loss on daily settlements of $148,987,000 to the Federal reserve bank and $130,565,000 to the United States Treasury, or $289,552,000 to the two institutions. Besides this they have shipped important amounts direct to their correspondent banks.

The main factor in this shift of money from New York has undoubtedly been the increasing absorption of money in the trade of the country and the need of the interior banks for higher legal reserves. The Comptroller of the Currency reports $896,635,000 of surplus reserves in all national banks on September 12, 1916, which compares with $882,850,773 on September 2, 1915. This would indicate that the system had just about absorbed the credit which could be based upon the additions to the money supply. But while the excess reserves are slightly larger than a year ago, their location is different and shows that the country is more closely loaned up than a year ago. The surplus last year and this year was held as follows:

	1915 Sept. 2	1916 Sept. 12
In vault and Federal Reserve Bank	$341,206,988	$178,499,000
With approved reserve agents	541,643,784	718,136,000
Total	$882,850,772	$896,635,000

It will be seen that at the later date there was a smaller surplus of cash on hand and in Federal reserve banks, and a larger surplus with approved reserve agents.

In connection with the increase of deposits with reserve agents it is to be considered that all deposits have increased largely since a year ago, and that the limit of legal reserves kept outside of the Federal reserve banks has been lowered. When the transfers to the reserve banks have been completed all reserves outside will be "surplus."

The reserve percentages held by the three

classes of national banks on September 12th, 1916, together with the figures for the required reserves are given below:

	Actual reserves per cent.	Legal reserves per cent.
Central Reserve City Banks..	20.39	18
Reserve City Banks..........	24.80	15
Country Banks	26.62	12

These figures taken together show that while the reserve city and country banks have large surplus reserves with the central reserve city banks, the latter are well loaned up. The resources of the Federal reserve banks have been only slightly drawn upon. The country banks will probably draw down these balances in the reserve cities much more before they resort to the Federal reserve banks, and as they do so the banks which lose cash will have to reduce their loans unless there is an inflow of gold sufficient to offset the withdrawals. No doubt the inflow will continue, for the balance of trade in our favor is enormous, and Great Britain and her Allies are not only obliged to pay for their purchases in some form but interested in keeping the New York money market in easy condition.

The demand for money for current trade is probably now at its apex. The crops have largely passed from the hands of producers, and are concentrated in hands where they must be carried until distributed. On account of the high prices, the amount of bank credit required is extraordinarily large, but there will naturally be a relaxation in this demand after the first of the year.

The total stock of money in the country according to Treasury estimates increased in the sum of $528,730,109 from October 1, 1915, to October 1, 1916, and the cash holdings of all national banks declined from $719,843,506 on September 2, 1915, to $663,522,000 on September 12, 1916. On the other hand the cash reserves of the Federal reserve banks and reserve agents increased in the same time from $382,521,000 to $719,425,000, or by $336,954,000. It is an interesting fact that the reserves of the twelve reserve banks now exceed the vault holdings of all national banks.

The most important items of assets and liabilities of national banks on September 2, 1915, and September 12, 1916, are shown below:

	1915 Sept. 2	1916 Sept. 12
Assets:		
Loans and discounts....	$6,756,680,004	$7,859,837,000
United States bonds....	781,726,220	729,777,000
Other bonds and securities	1,219,214,503	1,624,627,000
Due from approved reserve agents	811,379,578	936,339,000
Due from other banks and bankers	597,832,441	780,600,000
Federal reserve notes...	6,779,935	13,190,000
Total coin and certificates	719,843,506	663,022,000
Legal tender notes......	122,765,379	105,101,000
Due from Federal reserve banks	315,409,198	531,028,000
Customers liability under acceptances	16,461,341	77,879,000
Total assets...........	$12,267,090,429	$14,411,537,000
Liabilities:		
Demand deposits.......	$5,426,610,208	$6,708,833,000
Time deposits..........	1,335,572,505	1,736,766,000
Bills payable	60,169,307	38,499,000

A Chinese Loan.

The Continental and Commercial Bank of Chicago, has made a loan of $5,000,000 to the Republic of China for general governmental purposes, and the offering has been quickly taken by the American market. The active participation of Chicago in the promotion of foreign investments is a very encouraging symptom of the time. The Middle West has become in comparatively recent years a great market for our home securities, and it only needs to be familiar with the idea of foreign investments and aware of the benefits that such investments will bring to American industry, to become a liberal buyer of foreign securities. By means of foreign investments at this time it is possible to open permanent channels for the disposition of American products, which will be helpful after the war, when we may need additional business more than we do now.

We cannot as a country rise to this occasion unless all sections are actively interested in the educational propaganda that is required. There is no danger of not having enough foreign business to go around. There is a practically endless opportunity for development work in China alone. A distinguished Japanese statesman, Marquis Inouye, late ambassador to Great Britain, referring to the talked-of rivalry of Japan and the United States in China, said that for Japan, with the amount of capital it can spare, to expect to alone develop the resources of China would be like trying to smelt a ton of iron ore with a candle flame. The trouble is not to find opportunities abroad for the investment of American capital, but to find American capital that will go, and the more banking institutions, in different parts of the country, there are interested in promoting the movement, the easier it will be for all of them.

Summary of Bond Market for November.

Additional financing by foreign governments has been the feature of our bond market for November. The Russian government has issued a new $50,000,000 5½% five-year External Loan in this market, going to the public at 94¾ to yield 6.75%. The bonds are payable in New York in gold dollars or at the option of the holder in Petrograd at the current commercial rate of exchange at sight on New York.

A $60,000,000 French Municipal Loan has been offered. The loan is divided into equal amounts among the three cities of Bordeaux, Lyons and Marseilles. The bonds are three-year 6's offered upon a 6.75% basis and are payable at the option of the holder in New

York or in France at the fixed rate of 5.60 francs per dollar. The French government undertakes to furnish, if necessary, gold to the three cities to the amount needed to pay the loan in New York.

An issue of $3,800,000 City of Montreal forty-year 5% sinking fund bonds has been offered and well taken, on a 5.05% basis.

The demand for United States municipal issues that are tax exempt continues very strong and offerings are quickly absorbed. The general bond market has remained active throughout the month with a light advance in the level of prices. The demand from private investors and institutions has been heavy. Some convertible issues like Lackawanna Steel 5's of 1950 and Chile Copper 7's of 1923 have had notable advances in sympathy with the rise in the stocks of those companies. The average daily volume of sales on the Stock Exchange to the close of business on the 25th inst. was $5,063,000, compared with $5,358,000 in October and $3,885,000 in September.

The American Telephone and Telegraph Company has announced its plan for refinancing the $50,000,000 notes due February 1, 1918, and for meeting capital expenditures in the near future. It is proposed to issue $80,000,000 thirty-year collateral 5% bonds and to offer about $40,000,000 new stock to stockholders at par.

New York bankers are publicly offering $10,000,000 Western Pacific Railroad First Mortgage 5% thirty-year bonds at 90 to yield 5.70%.

At the close of the month an offering is being made of $12,800,000 Seaboard Air Line Railway First and Consolidated 6% Bonds due 1945 at 99½. These bonds are secured by a first mortgage on 416 miles of road, including the new important line from Hamlet, N. C. via Charleston to Savannah, Georgia. The South has undergone a remarkable development both agriculturally and industrially in the last decade. The Seaboard system is naturally sharing in this increased business. For the fiscal year ended June 30, 1916, gross revenue increased 12% over that for the previous year and gross income 28% over that for the fiscal year 1915.

The Shipbuilding Industry.

Several months ago a brief account was given in these columns of the organization of the American International Corporation by interests associated with this Bank, and of enterprises in which it had become interested in the first six months of its career. It will be remembered that it had taken a substantial interest in three shipping companies, viz.: the International Mercantile Marine, Pacific Mail and United Fruit. This was giving a preference for shipping not originally contemplated, but due to the unusual importance at this time of shipping accommodations to the foreign trade, and the opportunities that happened to offer.

In line with these investments and following them naturally has been the acquisition of the American Shipbuilding Co. of Camden, New Jersey, by the American International Corporation, together with the International Mercantile Marine Company, the Pacific Mail Steamship Company and W. R. Grace & Company.

The American Shipbuilding Company has a comparatively new plant and one of the most efficient in America. It is equipped for the building of steel vessels, both mercantile and war, and of various essentials to shipbuilding, such as marine engines and boilers, and recently made the record of building a 7,000-ton dead weight freighter and having the trial run in three weeks. The present capacity of the plant is 100,000 tons per annum, and this will be enlarged at once at least 50 per cent. It is proposed to organize a new corporation of larger capital, a majority of the stock in which will be owned by the above-named companies, but an offering will be made to the public. The contracts taken over, together with the repairs and new vessels required for the fleets of the shipping companies purchasing the yards, will give the company plenty of work for the next five years.

Jobs, Product and Distribution.

In the November number of this publication reference was made to an editorial critic who had voiced the familiar but mischievous view, that the wage-earning class would be benefited by increasing the number of people required to do a given amount of work. We have no wish to maintain a controversy with an individual or a newspaper, but sometimes an issue is more clearly defined by allowing a representative advocate of a certain theory or doctrine to state it in his own language. In this case the editorial utterance appeared not only in one newspaper of large circulation, but in an important group of newspapers belonging to a syndicate, all published in important cities, and having an aggregate circulation of hundreds of thousands. It is the fact that these views are thus widely dessiminated that we deem it of chief importance, and leads us to make further comment.

The original quotation from the newspaper editorial was the following sentence:

> "But it sure does take a New York bank to father the proposition that the creation of more jobs means national calamity."

Our comment was practically summed up in the following:

> In the last analysis what is wanted is not more jobs, but more things: more grain, more meat, more potatoes, more materials for clothing, more materials for houses, larger and better houses, more comforts in the houses, etc., etc., and there is no hope of supplying these wants except by more efficient industry. Instead of making each job occupy as many workers as possible, we want each man's work to be as productive as possible.

The editor now makes a rejoinder aimed at all the economists since Adam Smith, and the substance of it is given below:

> It is on the basis of [Adam] Smith's philosophy that the City Bank stands now in declaring that "to increase the supply of food, clothing and other desirable things," is more important than jobs.
>
> What the City Bank does not see or will not see is that the distribution of the food, clothing and shelter is of infinitely more importance. The Mercantilists mistook money for wealth. Smith set them right. Now the economists mistake wealth for happiness!
>
> What good are food, clothing and shelter unless used to produce the only commodity worth while—human happiness? If we pile up all the wealth in the hands of 2 per cent. of the population—which, according to the industrial relations commission, now has possession of 60 per cent. of all the wealth of the United States—how do we forward the real business of life?

The above presents the gist of the common argument against the existing order of society. The statement has been often made that two per cent. of the population owned some large proportion of the wealth, and it is proper to say in the first place that there are no authoritative figures for such statements. The census bureau has never made a calculation of this kind, and the report of the Industrial Commission is not an authority for anything.

The essential point, however, is that the people who use this argument all assume that two per cent. of the population consume sixty per cent. of the food, wear sixty per cent. of the clothing, monopolize sixty per cent. of the shelter, and enjoy sixty per cent. of the comforts and pleasures of life, whereas a moment's thought ought to show that this is a fallacy. It is absurd to suggest that two per cent. of the population eat sixty per cent. of the wheat crop, or sixty per cent. of dairy products, or sixty per cent. of the meat or fruit production, or buy sixty per cent. of our textile or other factory production, or use sixty per cent. of the timber output or sixty per cent. of the coal and other mineral production, or even own sixty per cent. of the automobiles. Two per cent. of the population do not have sixty per cent. of the railway, telephone or telegraph service, or supply sixty per cent. of the attendance in places of amusement and recreation; nor do they buy sixty per cent. of the books and newspapers printed, or receive sixty per cent. of the medical and surgical attendance, or absorb sixty per cent. of the benefits from schools.

The real distribution of wealth and of the benefits of industrial progress takes place in the consumption and enjoyment of these and similar things. They are the final proceeds of all our productive activities. Who gets them?

Two Classes of Wealth.

It is important in considering distribution to distinguish between the two general classes of wealth. There is, first, the class which includes all the things which minister directly to our needs, comfort and culture, such as dwelling houses, furnishings, food, clothing, fuel, means of transportation, libraries, schools, medical attendance, etc.; and, second, there is the class which comprises the various kinds of property which are mere agencies in producing the things of the first class. Land, factories, machinery and equipment of all kinds are of the second class. Railways and ships belong in a degree to the first class, but their main service is as agencies of the business community, and in this respect they belong to the second class. The great figures as to the amount of wealth in the hands of a few relate almost entirely to wealth of the second class. It is permanent property, which, with some deterioration, endures and is added to from year to year, while the consumable products and services which it yields figure very slightly in statistics of wealth or not at all.

This property of the second class has no value in itself. Its value is all derived from the stream of products or services that flow from it, and they are not distributed to the owners alone. This is a fact singularly overlooked by the people who write most incessantly about distribution. They assume that the benefits of productive property go exclusively to the owners. Their arguments, like the one above, are based upon that hypothesis. But will anyone attempt to maintain that nobody has ever derived any benefits from the development of the steam engine except the owners of steam engines? Does nobody have any good from railways unless he owns railway shares, or from the growth of the textile industry unless he owns mill shares? Is there no value in agricultural machinery except to farmers?

The last twelve months in which railway earnings were unaffected by the war, and for which figures are available, were of the year ended June 30, 1914. In that year the total operating revenues of all the railways of the United States were $3,029,914,285, and of this amount $407,843,814 was disbursed as interest on borrowed money and $205,914,908 was disbursed as dividends, or a total disbursement on account of ownership and the use of capital of $613,758,822. Evidently the benefits accruing from the mere ownership of railway property are insignificant compared with the benefits accruing to the public from the use of the property. Every person who directly paid a railway charge was presumably a gainer by the service, but they were only a few of the people who were gainers by the transportation service. The entire system of industrial exchanges is dependent upon it, and all the people to whom the railways disbursed 65 per cent. of their revenues for operating expenses may be assumed to be benefited. The railway owners cut a small figure in the distribution of gains. How utterly fallacious then to measure the distribution of benefits by estimates upon the ownership of property!

The Distribution of Profits.

Even the net earnings of productive property do not go entirely to the benefit of owners.

Industry grows largely by the investment of profits, and as soon as profits become reproductive the public begins to share in them. For instance, of the $613,758,822 disbursed as interest and dividends from the railway earnings of the fiscal year, 1914, a considerable portion was turned back into railway investments, for the improvement and enlargement of railway service. In fact, more new capital must be put into the railways of the United States each year than is taken out of them. They must have over a billion dollars a year of new money to keep them up to the growing needs of the country. Somebody must save or accumulate this new capital every year and put it into railways, or the public will lose much more.

Benefits, in an economic sense, are distributed only by consumption and personal service. The owner of a shoe factory who devotes all of the profits to the enlargement of the business is deriving no economic benefits for himself. He is simply increasing the supply of shoes on the market, and the only possible effect of that policy so long as it is followed is to make shoes more plentiful and cheap, and to contribute to the general well-being. The owner has the satisfaction of being a productive factor in the community, and of having capital accumulated for a rainy day, but this satisfaction is not a burden to the community.

The stockholders of the Ford Motor Company are in litigation over what shall be done with the $59,000,000 of profits made by that company last year, but whichever side has its way, the great bulk of that sum will be invested in productive industry of some kind, thus enlarging the demand for labor and increasing the supply of goods and services to the public. The benefit of those profits, one way or another, is bound to find its way back to the public.

To sum up: Large profits have the effect of rapidly increasing the stock of wealth of the second class, and this increases the supply of wealth of the first class, which in the nature of it must be widely distributed.

Distribution Inevitable.

That distribution will increase as production increases is inevitable. While a proprietor will try for all he can get, he is bound to distribute his product at cost rather than not distribute it at all, and in all lines, prices are always tending to the cost level for the most poorly circumstanced producers. The producers have every incentive to strive for lower

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 24, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's Settlement fund. Cr. Balances	13.696	161,552	17.690	16.144	4,500	5.420	27.808	8,366	7.354	4,660	4.182	12.358	283,730
Gold Settlement Fund	18,380	6,680	15,537	19,798	22,289	5,767	30,230	4,778	8,988	19,465	14,308	8,581	174,801
Gold Redemption Fund...	5	250	50	58	203	269	200	51	30	121	157	10	1,404
Total gold reserves..	32,081	168,482	33,277	36,000	26,992	11,456	58,238	13,195	16,372	24,246	18,647	20,949	459,935
Legal tender notes, Silver certf's and Sub. coin....	183	13.977	210	1.024	65	296	527	1.167	200	48	224	53	17,974
Total Reserves......	32.264	182,459	33.487	37,024	27,057	11,752	58.765	14,362	16,572	24,294	18,871	21.002	477,909
5% redemption fund—F. R. bank notes..............										370	100		470
Bills discounted, Members Commercial paper........	2,783	972	1.095	245	2,695	2,713	3 874	2,336	1,288	769	1,389	342	20.501
Bill bought in open market	13.339	34.296	13 308	6,893	963	4,993	6,132	5.006	3.099	1,813	1,116	11,134	102,092
Total bills on hand..	16,122	35 268	14.403	7,138	3,658	7 706	10.006	7.342	4.387	2.582	2.505	11.476	122.593(c)
Investment U. S Bonds ..	1.388	178	1,670	6,654	294	1,210	7,218	2,278	2,467	9,166	4,270	2,634	39,427
One-year U. S. Treas. notes	1.000	1,205	1,174	618	1,070	824	1,517	891	700	963	705	500	11 167
Municipal Warrants.......	1.392	8,404	1.670	3 637	61	409	2.457	633	1,208	308	77	1.910	22,166
Total Earning Assets	19 902	45.055	18,917	18.047	5.083	10,149	21.198	11,144	8,762	13.019	7,557	16.520	195.353
Federal Reserve Notes, net	824	9,785	888	294			1,028		1,239			1,356	15,414
Due from other F. R. Banks net....................	2,406	6,534		6,754	791	4,412	9,638	10,057	3,512	2,259	914	225	43 263(b)
All other resources........	61	225	90	478	61	251	160	319	41	203	545	217	2,651
TOTAL RESOURCES.....	55,457	244,058	53,382	62.597	32,992	26.564	90.789	35.882	30,126	40.145	27,987	39,320	735,060
LIABILITIES													
Capital Paid in............	5,007	11.909	5.226	5,993	3.341	2,480	6,683	2.794	2,609	3,051	2,695	3,923	55.711
Government Deposits.....	2.584	3.070	3.400	1,526	2,781	3.538	2,473	1,828	746	448	1.643	2,282	26.319
Reserve Deposits, net.....	47,649	228,979	40,365	55,078	24,537	16.259	81,603	26,429	26,769	34.234	22.100	33,070	637,072
Federal Reserve Notes-net					2,298	4,234		4,831		1,384	1,549		14,296(a)
Federal Reserve Bank Notes in circulation.....										1,028			1,028
Due to other F. R. Banks net....................			4,239										
All other Liabilities.......	217	100	152		35	53	30		2			45	634
TOTAL LIABILITIES.....	55.457	244.058	53,382	62 597	32.992	26.564	90.789	35,882	30,126	40.145	27,987	39.320	735,060

(a) Total Reserve notes in circulation 240,448

(b) After deduction of items in transit between Federal Reserve Banks, 43,263, the Gold Reserve against Net deposit and note Liabilities is 72.5% and the cash reserve is 75 3%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 76.1%.

(c) Maturities of bills discounted and loans: within 10 days, 17,465; to 30 days, 27,472; to 60 days, 50,751; other maturities, 26,905; Total: 122,593.

costs, larger production and widespread distribution, and every dollar of new capital is devoted to these ends. The result is seen in a constantly increasing supply of commodities per head of population, and the only way these commodities can possibly be distributed is by such a continual readjustment of wages and prices as will enable the people to buy them. The people, with the help of capital in the form of all the equipment of industry, produce the goods, and the goods are distributed back to the people; no other disposition of them is possible. Nothing less than the whole body of the people can consume the great and daily increasing mass of products. If these products were not taken off the market and consumed, industry would quickly become unprofitable, and come to a standstill.

There is naturally no small degree of confusion and maladjustment in a society where everybody must find his own place in the industrial organizations, with the right to live where he pleases and work at anything he chooses to try, to say nothing of an indisposition to work at all, and of all the other shortcomings of human nature; but the fact that production is always increasing faster than population and that consumption keeps up close to it, shows that a very good degree of reciprocal distribution exists.

Federal Reserve Board on Foreign Treasury Bills.

The Federal Reserve Board on November 27 issued the following statement relating to foreign credits:

In view of contradictory reports which have appeared in the press regarding its attitude toward the purchasing by banks in this country of Treasury bills of foreign governments, the Board deems it a duty to define its position clearly. In making this statement the Board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood that it seeks to deal only with general principles which affect all alike.

The Board does not share the view frequently expressed of late, that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the Board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks or if need be by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the Federal Reserve Act to become effective on November 16, 1917. This date could be advanced to February or March, 1918. Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that while a large increase in the country's gold holdings has taken place, the expansion of loans and deposits has been such that there will not remain any excess of reserves, apart from the important reserve loaning power of the Federal Reserve Banks.

In these circumstances the Board feels that member banks should pursue a policy of keeping themselves liquid; of not loaning down to the legal limit, but of maintaining an excess of reserves—not with reserve agents, where their balances are loaned out and constitute no actual reserve, but in their own vaults or preferably with their Federal Reserve Banks. The Board believes that at this time banks should proceed with much caution in locking up their funds in long term obligations or in investments, which are short term in form or name, but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until normal conditions return. The Board does not undertake to forecast probabilities or to specify circumstances which may become important factors in determining future conditions. Its concern and responsibility lies primarily with the banking situation. If, however, our banking institutions have to intervene because foreign securities are offered faster than they can be absorbed by investors—that is their depositors—an element would be introduced into the situation which, if not kept under control, would tend toward instability, and ultimate injury to the economic development of this country. The natural absorbing power of the investment market supplies an important regulator of the volume of our sales to foreign countries in excess of the goods that they send us. The form which the most recent borrowing is taking, apart from reference to its intrinsic merits, makes it appear particularly attractive as a banking investment. The Board, as a matter of fact, understands that it is expected to place it primarily with banks. In fact, it would appear so attractive that unless a broader and national point of view be adopted, individual banks might easily be tempted to invest in it to such an extent that the banking resources of this country employed in this manner might run into many hundreds of millions of dollars. While the loans may be short in form and severally, may be collected at maturity, the object of the borrower must be to attempt to renew them collectively, with the result that the aggregate amount placed here will remain until such time as it may be advantageously converted into a long term obligation. It would, therefore, seem as a consequence that liquid funds of our banks, which should be available for short credit facilities to our merchants, manufacturers and farmers, would be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the fact that many of our banks and trust companies are already carrying substantial amounts of foreign obligations, and of acceptances which they are under agreement to renew. The Board deems it, therefore, its duty to caution the member banks that it does not regard it in the interest of the country at this time that they invest in foreign Treasury bills of this character.

The Board does not consider that it is called upon to advise private investors, but as the United States is fast becoming the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should receive full and authoritative data—particularly in the case of unsecured loans—in order that he may judge the future intelligently in the light of present conditions and in conjunction with the economic developments of the past.

The United States has now attained a position of wealth and of international financial power, which, in the natural course of events, it could not have reached for a generation. We must be careful not to impair this position of strength and independence. While it is true that a slowing down in the process of credit extension may mean some curtailment of our abnormally stimulated export trade to certain countries, we need not fear that our business will fall off precipitately should we become more conservative in the matter of investing in loans, because there are still hundreds of millions of our own and foreign securities held abroad which our investors would be glad to take over, and moreover, trade can be stimulated in other directions.

In the opinion of the Board, it is the duty of our banks to remain liquid in order that they may be able to continue to respond to our home requirements, the nature and scope of which none can foresee, and in order that our present economic and financial strength may be maintained when, at the end of the war we shall wish to do our full share in the work of international reconstruction and development which will then lie ahead of us, and when a clearer understanding of economic conditions as they will then exist, will enable this country more safely and intelligently to do its proper part in the financial rehabilitation of the world.